

# JASDEC NEWSLETTER

## Vol.14

## Winter 2011

The photograph on the front cover is Togetsu Bridge in Arashiyama, Kyoto, stretching across Katsura River. Togetsu Bridge dates way back to the times in the Heian period, which is more than a thousand years ago (the bridge in its present form was completed in 1934). Katsura River, which flows beneath Togetsu Bridge, has long served as an infrastructure underpinning the daily lives of Kyoto residents—for example, it was used for transporting timber upon building Japan's ancient capital of Heian-kyo, now known as Kyoto. Katsura River's basin is home to numerous sites of historic interest and scenic beauty, as exemplified by Arashiyama, attracting visitors from both home and abroad all year round.

Just as the continuous flow of the river underpins the daily lives of its residents and facilitates interaction among them, JASDEC engages in daily operations with a strong sense of mission as a settlement system that interlinks investors, issuers, securities companies, banks and other interested parties.

**1. Handling of J-Sukuk with Special Purpose Trust Beneficiary Rights**

**2. The 13th Cross-Training Seminar of Asia-Pacific Central Securities Depository Group**

**3. JASDEC Signs MOU with Russian Central Securities Depository**

**4. Business Statistics**



# 1. Handling of J-Sukuk with Special Purpose Trust Beneficiary Rights

## Background

In recent years, the scale of the Islamic finance market has been growing rapidly, and this high growth rate is expected to continue. Given this background, it had been widely recognized that Japan also needed to adjust its tax and regulatory environment in order to attract Islamic money. Accordingly, the Financial Services Agency last year called for tax reform, with the aim of establishing a tax system for Japan's financial and capital markets that would diversify fund management and funding sources to attract Islamic money and issuers from Islamic regions. This request was included as the Tax Reform Summary necessary for Islamic finance in the 2011 Outline of Tax Reform of the government of Japan.

In response, necessary legal amendments were made regarding the tax treatment of special purpose trust beneficiary rights that can be utilized as "Sukuk" and a legal framework was developed for issuing Sukuk based on the special purpose trust beneficiary rights structure in Japan ("J-Sukuk").<sup>\*1</sup>

<sup>\*1</sup> Following the enactment of the Act on the Partial Amendment of the Financial Instruments and Exchange Act, etc. to Enhance the Infrastructure of Capital Markets and Financial Sector (2011 Act No.49), the Act on Securitization of Assets (1998 Act No.105; hereinafter referred to as "the Act") and various related tax laws were revised, resulting in the development of legal and tax frameworks for the issuance of "Sukuk".

## J-Sukuk

In Japan, it will soon become possible to issue securities, similar to bonds that Islamic investors can also invest in, by utilizing the special purpose trust beneficiary rights structure under the Act.

The outline of the scheme for issuing J-Sukuk is as follows (refer to Figure).

- (1) An entity seeking to raise funds (i.e., originator) entrusts assets in its portfolio (real estate, etc.) to a special purpose trust under a trust agreement.
- (2) The special purpose trust issues J-Sukuk to the originator.
- (3) The originator sells the J-Sukuk to investors.
- (4) Investors make a payment to the originator for the J-Sukuk.
- (5) The originator leases back the entrusted assets from the special purpose trust.
- (6) The originator periodically makes lease payments to the special purpose trust.
- (7) The special purpose trust pays dividends to investors on J-Sukuk; dividend payment is financed by lease payments received in (6).
- (8) Upon the redemption of J-Sukuk, the originator buys back the assets (trust assets) from the special purpose trust.
- (9) The originator pays consideration for the acquisition of the assets to the special purpose trust.
- (10) The special purpose trust redeems the principal of the J-Sukuk; redemption of the principal is financed by the consideration received in (9).

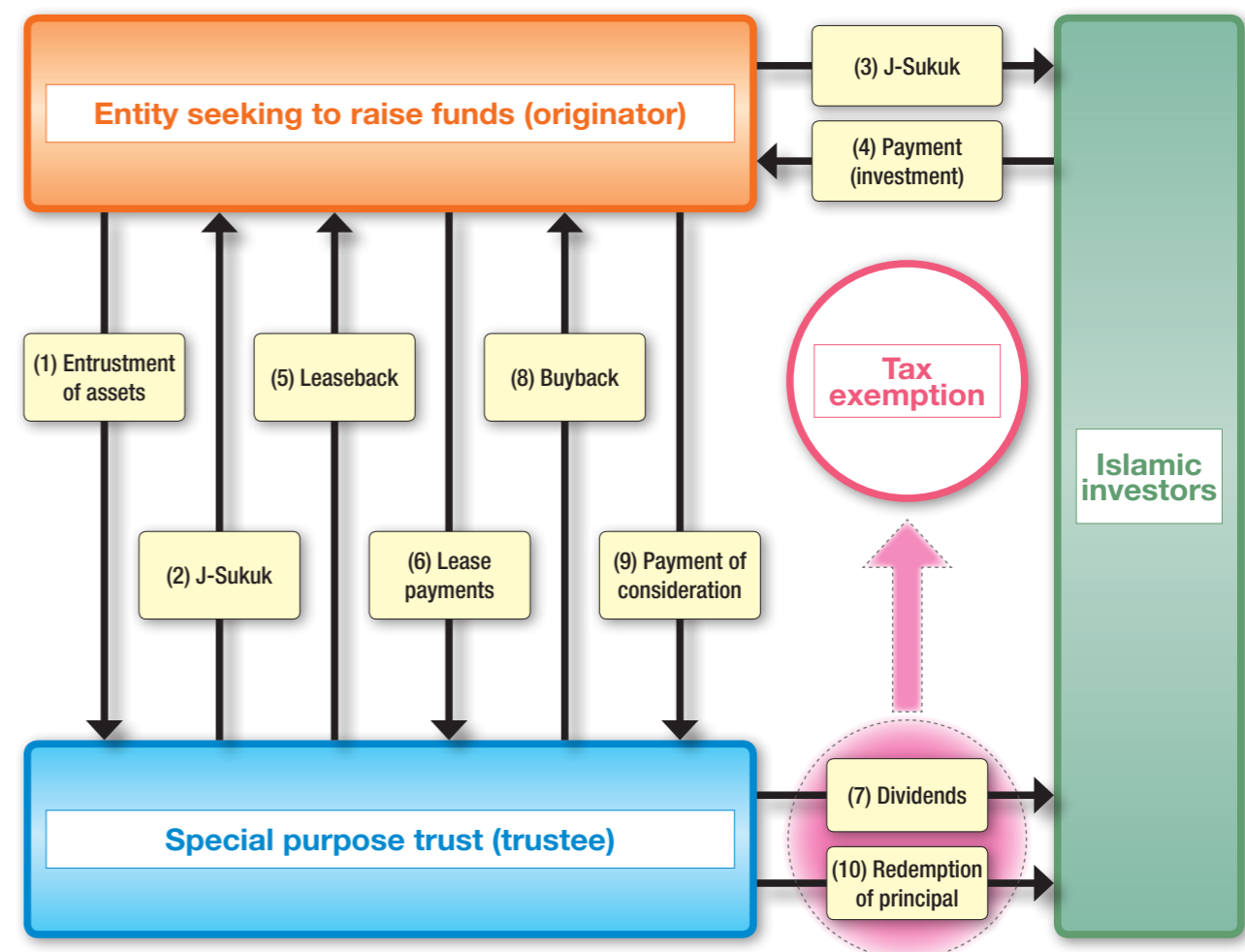
(10) The special purpose trust redeems the principal of the J-Sukuk; redemption of the principal is financed by the consideration received in (9).

## For the Future

JASDEC is conducting studies with a view to commence the handling of J-Sukuk in its Book-Entry Transfer System for Corporate Bonds from the spring of 2012, subject to the

completion of necessary procedures. In addition to system-level adjustments made at JASDEC, developments in the market environment are being planned in the months ahead, such as the formulation of market rules by market players. Making Japan attractive for Islamic finance through the issuance of J-Sukuk will enable further diversity in funding sources and contribute to the development of Japan's financial and capital markets.

■ Figure: Conceptual Diagram of Issuance of J-Sukuk



### ■ "Sukuk"

Sukuk refer to securities with bond-like characteristics that are issued in a format that complies with "Sharia" Islamic law. As Islam generally prohibits receiving and paying interest, investments that correspond to investments in corporate bonds in substance adopt such schemes as capital contributions and lease transactions in order to receive and pay proceeds from assets and businesses in the form of dividends, thereby enabling Islamic investors to invest in securities, similar to bonds.

### ■ Gist of tax reform

- Exemption of taxes on J-Sukuk dividends
  - Exemption of taxes on dividends and gains on redemption received by non-residents, etc.
  - Exemption of withholding at source of dividends received by financial institutions
- Exemption of taxes such as transfer tax on trust assets
  - Exemption of real estate acquisition tax and other taxes upon buyback (redemption) of trust assets

## 2. The 13th Cross-Training Seminar of Asia-Pacific Central Securities Depository Group

The Asia-Pacific Central Securities Depository Group (ACG) is an organization established by Central Securities Depositories (CSDs) in the Asia-Pacific region with the aim of exchanging information and providing mutual support. At present, there are four task forces established within ACG: Exchange of Information Task Force, New Business Initiative Task Force, Technical Task Force and Legal Task Force. A cross-training seminar is held once a year, in order to promote the exchange of business-related information and human interaction through these four Task Forces. The 13th ACG Cross-Training Seminar, hosted by the Mongolian Securities Clearing House & Central Depository Co., Ltd (MSCH&CD; CSD of Mongolia), was held in Ulaanbaatar for a period of two days from September 14, 2011.



Seminar venue

On Day 1 of the Seminar, host MSCH&CD gave an introductory account of the history of the progress of Mongolian securities markets, in addition to efforts made by MSCH&CD to improve the efficiency of settlement operations, enhance risk management and so forth. In the subsequent session, the Exchange of Information Task Force gave a report on the results of the ACG Issuer Services Survey conducted this spring, as well as country-by-country presentations on the current situation of and future issues in establishing domestic and overseas CSD linkages. In the session conducted by the New Business Initiative Task

Force, members gave an introductory account of the role played by the respective CSDs in their countries in e-voting at the general meetings of shareholders.



Breakout session

On Day 2, the Legal Task Force's session highlighted the issue of legal application in cross-border securities transactions, and introduced the opinions gathered from ACG members on the consultative report "Principles for Financial Market Infrastructures" published by CPSS\*1 and IOSCO\*2 this March. In the subsequent session conducted by the Technical Task Force, members explained the Business Continuity Plan (BCP) that the respective CSDs in their countries had been working on. At the end of the Seminar, group discussions were held per Task Force, and participants freely exchanged opinions on pre-selected topics.



Participants in Cross-Training Seminar

In the session conducted by the Exchange of Information Task Force, JASDEC reported the results of the ACG Issuer Services Survey, and gave a presentation on "Cross-Border

Linkage—issues and challenges" and "Non-Resident Transaction and Investment Support Service for Foreign Securities". In the session conducted by the Legal Task Force, JASDEC gave an explanation on "Research on Legal Application in Cross-Border Securities Transactions", and in the session conducted by the Technical Task Force, gave a presentation on "JASDEC's Response to the Great East Japan Earthquake".

## 3. JASDEC Signs MOU with Russian Central Securities Depository

On September 18, 2011, JASDEC signed a Memorandum of Understanding (MOU) on information exchange and mutual cooperation with Russia's central securities depository National Settlement Depository (NSD) for the purpose of further developing its cooperative relationship with NSD.



NSD Chairman of the Executive Board Eddie Astanin (left) and JASDEC Chairman Yoshinobu Takeuchi (right) signing MOU

JASDEC had already formed a close, amicable relationship with NSD through the conference of Central Securities Depositories (CSDs), the World Forum of CSDs (WFC), which is a conference of representatives of the five regional CSD associations worldwide, and other international conferences. The conclusion of the MOU will further enhance the relationship based on mutual cooperation between JASDEC and NSD.

\*1 CPSS: Committee on Payment and Settlement Systems of the Bank for International Settlements (BIS)

\*2 IOSCO: International Organization of Securities Commissions

■ Presentations are available for viewing on ACG's website (except some presentations).  
ACG Website / Event / Cross Training: [http://www.acgcsd.org/acg\\_04.aspx](http://www.acgcsd.org/acg_04.aspx)

JASDEC has signed MOUs of this nature with 13 CSDs, including NSD. JASDEC will endeavor to enhance the international competitiveness of Japanese securities markets through its relationship of international cooperation and its network of information exchange with overseas CSDs.

### ■ About NSD

National Settlement Depository (NSD) is Russia's largest securities depository, and is a member of the MICEX Group, which is a securities exchange. NSD provides settlement services for on-exchange and OTC transactions involving all types of bonds and stocks of Russian issuers to participants in financial markets within the Russian Federation. For details of NSD, refer to <http://www.nsd.ru/en/>.



Attendees at JASDEC-NSD MOU signing ceremony

# 4. Business Statistics

## (1) Status of system participants (as of October 31, 2011)

	Issuers	JASDEC participants	Indirect Account Management Institutions	Fund settlement corporations	Other*
① Book-entry Transfer System for Stocks, etc.	3,681	220	95	71	34
② Book-entry Transfer System for Commercial Paper	494	68	39	146	21
③ Book-entry Transfer System for Corporate Bonds	2,540	88	435	146	206
④ Book-entry Transfer System for Investment Trusts	83	184	699	47	11
⑤ Custody Services for Foreign Stock Certificates, etc.	23	165	—	—	—

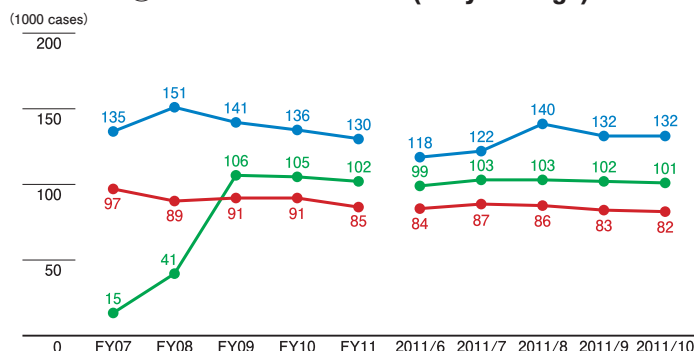
\* "Other" includes administrator of shareholder registry, issuing and paying agents, trustees, etc.

⑥ Pre-Settlement Matching System	
Users	
698	
⑦ DVP Settlement System for Non-Exchange Transaction Deliveries	
DVP participants	Settlement banks
56	3

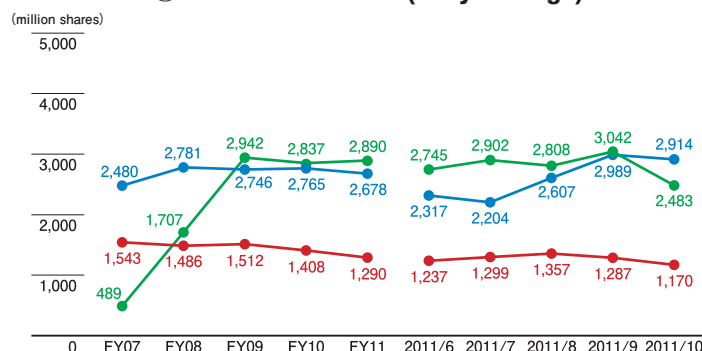
## (2) Trends in book-entry transfer of stocks

— Non-exchange transaction deliveries (excluding transfers between classified accounts)  
— Transfers between classified accounts  
— Exchange transaction transfers

### ① Number of transfers (daily average)



### ② Number of stocks (daily average)



(Note 1) "Non-exchange transaction deliveries" refer to the number of transfers and number of stocks relating to transfers other than those associated with exchange transaction settlement. "Transfers between classified accounts" refer to the number of cases and number of stocks relating to transfers between classified accounts of the same JASDEC participant.

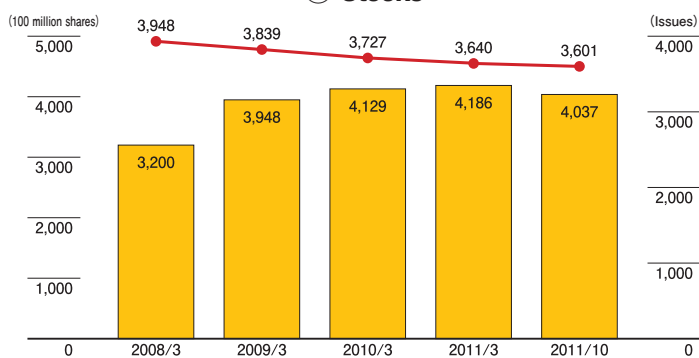
(Note 2) Processing below the decimal point is rounded down both in "(2) Trends in book-entry transfer of stocks", and "(3) Status of account balance". A part of data in (2) is revised as it has been rounded off up to former issues.

(Note 3) FY2011 data is based on daily average from April 2011 to October 2011.

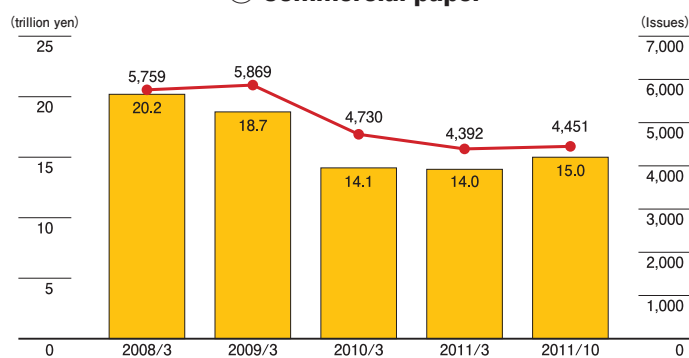
## (3) Status of account balance and number of issues

■ Account balance (left axis)  
● Number of issues (right axis)

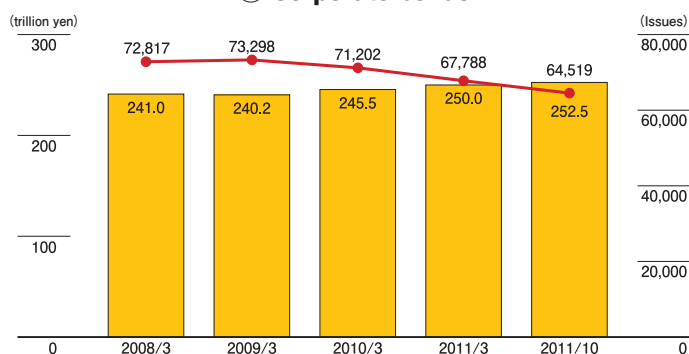
### ① Stocks



### ② Commercial paper



### ③ Corporate bonds



### ④ Investment trusts

